



AUDITOR-GENERAL
SOUTH AFRICA

The Accounting Officer
Makhado Local Municipality
Private Bag X2596
Louis Trichardt
0920

30 November 2010

Dear Sir

Handwritten: R. H. Mahule (GFO)
2010/12/01

**FINAL REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS
AND PERFORMANCE INFORMATION OF MAKHADO LOCAL MUNICIPALITY FOR THE
YEAR ENDED 30 JUNE 2010**

1. The above-mentioned final report of the Auditor-General are submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004 read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA).
2. In terms of section 121(3) and 127(2) of the MFMA municipalities have to include the audit report in the municipality's annual report for tabling.
3. Until tabled as required by section 127(2) the final report is **not a public document** and should therefore be treated as **confidential**.
4. As your municipality will be responsible for publishing the attached audit report as part of the annual report, you are required to do the following please:
 - Submit the final printer's proof of the annual report (which includes the audit report) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature at the end of the hard copy of the audit report should be scanned in when preparing to print the report. The typeset initials and surname of the signatory, with the words 'for Auditor-General' on the same line, as well as the place and date of signing and the logo should also appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the Provincial Auditor-General (Business Executive) well in advance of the date on which the audit report, or the annual report containing this audit report, will be tabled at the municipality.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Yours faithfully

For AUDITOR-GENERAL

Auditing to build public confidence

Reference: 02264REG09/10
Enquiries: Pierre de Ru

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON MAKHADO LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Makhado Municipality, which comprise statement of financial position as at 30 June 2010, and the statement of financial performance statement of changes in net assets cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009*, issued in *Government Gazette No. 32758 of 27 November 2009*. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Cash and cash equivalents

4. My audit report for the prior year was modified due to the non-clearance of long outstanding reconciling items and this matter had not been resolved for the year ended 30 June 2010. I was unable to determine whether adjustment to the results of operations and opening accumulated surplus might be necessary for the year ended 30 June 2009. My opinion for the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.
5. In its deliberations, council has written off cash and bank reconciling items as disclosed in note 38 to the financial statements. The resolution to write off these reconciling items was also approved prior to the municipality carrying out an investigation to clear and allocate these reconciling items in the accounting records. In applying the resolution, the municipality selectively identified items for write off in order to reflect a no impact balance. If the resolution had been applied consistently on all reconciling items up to 30 June 2009, as approved by council, the bank overdraft would have reduced by R4 899 241 and accumulated surplus be increased by the same amount.

6. Deposits totalling to R48 774 369 was received in the bank account of the municipality in the year under review. The nature of these deposits were not investigated and recorded in the accounting records of the municipality.. Had the deposits been recorded in the accounting records and the cash and cash equivalents would be increased by R48 774 369. I could not determine the effect on the account balances or classes of transactions contained in the financial statements.
7. Included in the bank overdraft amounting to R19 382 601 are outstanding deposits to the amount of R24 932 164 which could not be traced to the bank statement and supporting documentation. With reference to the above paragraphs, the effect on cash and cash equivalents and on other account balances or classes of transactions contained in the financial statements could not be determined.

Property, plant and equipment

8. The municipality's accounting records did not facilitate the easy identification and location of assets recorded in the financial statements. As a result, movable assets amounting to R173 564 004 included in the financial statements could not be verified.
9. Due to the lack of sufficient information in the accounting records of the municipality, I could not obtain sufficient appropriate audit evidence regarding the completeness and valuation of land amounting to R919 154 (2009: R919 954) as disclosed in the financial statements. The municipality's records did not permit the application of alternative audit procedures.

Trade and other receivables

10. As disclosed in note thirty eight to the financial statements, the municipality has written off unidentified deposits in the bank account from prior periods amounting to R122 077 117. The write off was approved prior to the municipality prior to performing an investigation to allocate these amount to the respective debtor accounts. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and allocation of the consumer debtors amounting to R131 532 061. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.
11. Included in the trade receivable balance of R131 532 061 on the statement of financial position is debtors with credit balances amounting to R2 335 240. As per the SA standards of GRAP framework, paragraph 66 debtors with credit balances are defined as current liabilities and to be classified as trade and other payables. Consequently both trade and other receivables and trade and other payables are understated.

Trade and other payables

12. My audit report for the prior year was modified due to lack of sufficient evidence that all projects were accounted for amounting to R3 275 280 and this matter had not been resolved for the year ended 30 June 2010. I was unable to determine whether adjustment to the results of operations and opening accumulated surplus might be necessary for the year ended 30 June 2009. My opinion for the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.
13. The entity did not accrue for invoices in respect of goods and services received amounting to R2 887 725. If these invoices had been accrued for the effect would have been to reduce the surplus for the period, and the accumulated surpluses by R2 887 725 and to increase payables in the statement of financial position by an equal amount.
14. The municipality could not provide sufficient appropriate audit evidence to support the balance of retention money of R2 243 961 as disclosed in note nine to the financial statements. As a result, I

could not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and allocation, rights and existence of the retention balance in the financial statements.

15. Included under other creditors in note nine to the financial statements are suspense accounts for unallocated deposits amounting to R8 218 457. The municipality did not investigate the nature of these deposits. As a result I was unable to determine the effect on the other account balances or classes of transactions contained in the financial statements

Revenue

16. The municipality did not perform a reconciliation between the valuation roll and the underlying accounting records which resulted in discrepancies between the rates as per the valuation roll and the rates charged on the financial system and accounting records. There were no satisfactory audit procedures that I could perform to obtain reasonable assurance that property rates amounting to R16 834 057 in the financial statements is accurate and complete.

Financial statements

17. In terms of section 122(3) of the MFMA, the annual financial statements must be prepared in accordance with generally recognised accounting practice as determined by the Accounting Standards Board. The municipality have not provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, as prescribed by GRAP 1 *Presentation of Financial Statements*.
18. In terms of section 125(2)(d)(i) of the MFMA, the municipality did not disclose distribution losses in the financial statements.

Disclaimer of Opinion

19. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

20. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unauthorised expenditure

21. As disclosed in note 32 to the financial statements, the municipality incurred unauthorised expenditure amounting to R1 202 130 (2008-09: R8 677 9977) against section 84(1) of the Municipal Structures Act, 1998 (Act no of 17 of 1998) which assign the powers and functions to provide, amongst others, potable water supply systems within their district to the District Municipalities.

Restatement of corresponding figures

22. As disclosed in note 31 to the financial statements, the corresponding figures for the year ended 30 June 2009 have been restated as a result of errors discovered in the financial statements of the Makhado municipality at, and for the year ended, 30 June 2009.

Additional matters

23. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unaudited supplementary schedules

24. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

25. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations and financial management (internal control).

Predetermined objectives

26. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

Non-compliance with regulatory and reporting requirements

Reported performance information not received in time

27. Makhado Local Municipality did not submit the annual performance report in terms of section 46 of the MSA, and section 121(3)(c) of the MFMA.

Existence and functioning of a performance audit committee

28. Makhado Local Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

29. Makhado Local Municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

Compliance with laws and regulations

MFMA

Expenditure was incurred in contravention of applicable legislation resulting in unauthorised expenditure

30. Contrary to the requirement of section 1 of the MFMA, the municipality incurred unauthorised expenditure.

Expenditure was not paid within the parameters set by the applicable legislation

31. Contrary to section 65(2)(e) of the MFMA the municipality did not pay money owing by the municipality within 30 days of receiving the statement or invoice payments.

The accounting officer did not adhere to his statutory responsibilities

32. Contrary to section 62(1)(d) of the MFMA the accounting officer did not comply with his legislative responsibilities to implement effective, efficient and transparent processes of financial and risk management to prevent and detect unauthorised expenditure and fruitless and wasteful expenditure.

Supply chain management legislative requirements were not adhered to

33. Contrary to section 62(1)(b) of the MFMA proper record keeping and management was not in place resulting in requested information not being available at the municipality.

The financial statements were not prepared in accordance with applicable legislation

34. Contrary to section 122(1) of the MFMA the municipality did not prepare financial statements that fairly present its state of affairs as material misstatements were corrected during the audit.

35. Contrary to section 125(2)(d)(i) of the MFMA the municipality did not disclose distribution losses in the financial statements.

36. In terms of section 122(3) of the MFMA, the annual financial statements must be prepared in accordance with generally recognised accounting practice as determined by the Accounting Standards Board. The municipality have not provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, as prescribed by GRAP 1 *Presentation of Financial Statements*.

The internal audit unit were not functioning properly

37. Contrary to section 165(2) of the MFMA the internal audit unit of the municipality did not advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to performance management.

INTERNAL CONTROL

38. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.

39. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraph, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

- *Oversight responsibility*

- The accounting officer does not exercise oversight responsibility over reporting and compliance by management with laws, regulations and internally designed policies and procedures. As a result, non-compliance issues were noted.

- **Financial and performance management**

- *Quality, reliable financial statements and management information*

- The financial statements and other information to be included in the annual report are not reviewed for completeness and accuracy prior to submission for audit by the chief financial officer.

- Adequate systems, manual or automated controls are not designed or implemented to ensure that the transactions have occurred, are authorised, and are completely and accurately processed pertaining to the accounting system.

- Governance

- Risk identification and management

Internal controls are not selected and developed to prevent/detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

Auditor-General

Polokwane

30 November 2010



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